

Approved: _____

ANDREW D. BEATY
Assistant United States Attorney

Before: THE HONORABLE KATHARINE H. PARKER
United States Magistrate Judge
Southern District of New York

19MAG 5528

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UNITED STATES OF AMERICA

- v. -

JONATHAN WARREN,

Defendant.

: SEALED COMPLAINT
:
:
: Violations of
: 18 U.S.C. § 1957 and 2
:
:
: COUNTY OF OFFENSE:
: NEW YORK
:
:
: X

SOUTHERN DISTRICT OF NEW YORK, ss.:

ROBERT J. VANECEK, being duly sworn, deposes and says that he is a Special Agent with Drug Enforcement Administration ("DEA"), and charges as follows:

COUNT ONE

(Engaging in Monetary Transactions in Property Derived From Specified Unlawful Activity)

1. In or about January 2018, in the Southern District of New York and elsewhere, JONATHAN WARREN, the defendant, in an offense involving and affecting interstate commerce, knowingly engaged and attempted to engage in monetary transactions in criminally derived property of a value greater than \$10,000, to wit, illegal narcotics trafficking, in violation of Title 21 of the United States Code.

(Title 18, United States Code, Section 1957 and 2.)

The bases for my knowledge and for the foregoing charges are, in part, as follows:

2. I am a Special Agent with DEA and I have been personally involved in the investigation of this matter. This affidavit is based upon my investigation, which has included, among other things, conversations with witnesses and other law enforcement agents, review of bank records and websites, and examination of a database reflecting cryptocurrency transactions. Because this affidavit is being submitted for the limited purpose of establishing probable cause, it does not include all the facts that I have learned during the course of my investigation. Where the contents of documents and the actions, statements and conversations of others are reported herein, they are reported in substance and in part, except where otherwise indicated.

BACKGROUND

3. As set out in detail below, JONATHAN WARREN, the defendant, engaged in financial transactions using Bitcoins that he knew to be derived from the sale of prescription drugs on "Silk Road," a Dark Web marketplace for illegal drugs, as well as other illicit goods and services. In doing so, WARREN sought to conceal and disguise the source of the Bitcoins.

Bitcoins

4. Based on my training and experience, I know the following about Bitcoins:

a. Bitcoins are an anonymous, decentralized form of electronic currency, existing entirely digitally and not in any physical form. The currency is not issued by any government, bank, or company, but rather is generated and controlled automatically through computer software operating on a "peer-to-peer" network. Bitcoin transactions are processed collectively by the computers composing the network.

b. To acquire Bitcoins in the first instance, a user typically must purchase them from a Bitcoin "exchanger." In return for a commission, Bitcoin exchangers accept payments of currency in some conventional form (cash, wire transfer, etc.) and exchange the money for a corresponding number of Bitcoins, based on a fluctuating exchange rate. Exchangers also accept payments of Bitcoin and exchange the Bitcoins back for conventional currency, again, charging a commission for the service.

c. Once a user acquires Bitcoins from an exchanger, the Bitcoins are kept in a "wallet" associated with a Bitcoin "address," designated by a complex string of letters and numbers. (The "address" is analogous to the account number for a bank account, while the "wallet" is analogous to a portfolio of bank accounts, since a single "wallet" can contain multiple "addresses.") Once a Bitcoin user funds his wallet, the user can then use Bitcoins in the wallet to conduct financial transactions, by transferring Bitcoins from a Bitcoin address within that "wallet" to the Bitcoin address of another user, over the Internet.

d. All Bitcoin transactions are recorded on a public ledger known as the "Blockchain," stored on the peer-to-peer network on which the Bitcoin system operates. The Blockchain serves to prevent a user from spending the same Bitcoins more than once. However, the Blockchain only reflects the movement of funds between anonymous Bitcoin addresses and therefore cannot by itself be used to determine the identities of the persons involved in the transactions. Only if one knows the identities associated with a Bitcoin address involved in a set of transactions is it possible to meaningfully trace funds through the system.

e. Bitcoins are not illegal in and of themselves and have known legitimate uses. However, Bitcoins are also known to be used by criminals for money-laundering purposes, given the ease with which they can be used to move money anonymously.

Silk Road

5. In or around October 2013, U.S. law enforcement seized a Dark Web site known as "Silk Road," where illegal drugs and other illicit goods and services were regularly bought and sold by the site's vendors and customers, and arrested its owner and operator, Ross William Ulbricht, a/k/a "Dread Pirate Roberts," a/k/a "DPR," a/k/a "Silk Road." Ulbricht was convicted after a jury trial in February 2015 of various offenses including narcotics distribution and money laundering, stemming from his operation of Silk Road from in or about January 2011, up to and including in or about September 2013. Evidence introduced at Ulbricht's trial and in related proceedings demonstrated the following:

a. Silk Road was designed to be an online criminal marketplace outside the reach of law enforcement or governmental regulation. First, Ulbricht operated Silk Road on what is known as "The Onion Router" or "Tor" network ("Tor"), a special network on the Internet designed to make it practically impossible to physically locate the computers hosting or accessing websites on the network. Second, he required all transactions on Silk Road to be paid with Bitcoins.

b. During its two-and-a-half years in operation, Silk Road was used by several thousand drug dealers and other unlawful vendors to distribute hundreds of kilograms of illegal drugs and other illicit goods and services to well over a hundred thousand buyers, and to launder hundreds of millions of dollars deriving from these unlawful transactions. All told, the site generated sales revenue totaling over approximately 9.5 million Bitcoins.

Silk Road's Bitcoin-Based Payment System

6. Based on my conversations with agents involved in the original Silk Road investigation and review of documents prepared by them, I know the following concerning the payment system used to process purchases made through the Silk Road site:

a. The only form of payment accepted on Silk Road was Bitcoins.

b. Silk Road's payment system essentially consisted of a Bitcoin "bank" internal to the site, where every user had to hold an account in order to conduct transactions on the site.

c. Specifically, every user on Silk Road had a Silk Road Bitcoin address, or multiple addresses, associated with the user's Silk Road account. These addresses were stored on wallets maintained on servers controlled by Silk Road.

d. In order to make purchases on the site, the user first had to obtain Bitcoins (typically from a Bitcoin exchanger) and send them to a Bitcoin address associated with the user's Silk Road account.

e. After thus funding his account, the user could then make purchases from Silk Road vendors. When the user purchased an item on Silk Road, the Bitcoins needed for the purchase were held in escrow (in a wallet maintained by Silk Road) pending completion of the transaction.

f. Once the transaction was complete, the user's Bitcoins were transferred to the Silk Road Bitcoin address of the vendor involved in the transaction. The vendor could then withdraw Bitcoins from the vendor's Silk Road Bitcoin address, by sending them to a different Bitcoin address, outside Silk Road, such as the Bitcoin addresses the vendor personally controls.

THE DEFENDANT'S BITCOIN TRANSACTIONS AND CONNECTION TO SILK ROAD

7. Based on a review of business records obtained from a securities broker-dealer that offers market making services for various cryptocurrencies ("Broker-1"), I know the following:

a. JONATHAN WARREN, the defendant, opened an account with Broker-1 in December 2017.

b. WARREN engaged in his first trade with Broker-1 on or about January 5, 2018, by attempting to sell approximately 578 Bitcoins through Broker-1 at a price of \$16,600, for a total of \$9,600,000. WARREN requested that the money be deposited into bank account in his name.

c. Broker-1 accepted delivery of the purchased Bitcoins and thereafter analyzed the Blockchain to determine the origin and provenance of WARREN's Bitcoins.

d. Based on that analysis, Broker-1 determined that the approximately 578 Bitcoins delivered to Broker-1 came from two separate Bitcoin addresses: 306 Bitcoins from the blockchain cluster with the root address ending in -vcMrwRcx ("Warren Wallet-1")¹ and 272 Bitcoins from the address ending in -hq2nBtP6 ("Warren Wallet-2").

¹ A cluster of addresses on blockchain is determined by the input addresses used for the same transaction. That is, the addresses are all used simultaneously to send money to the same destination address. In order to execute such a transaction, a

e. Broker-1 determined that Warren Wallet-1 had a direct connection with Silk Road and that it had received approximately 316 Bitcoins -- 99.9% of the Bitcoins in Warren Wallet-1 -- from Silk Road.² It also determined that Warren Wallet-2 was an address that represented a withdrawal from Mt. Gox, but had sent 32 Bitcoins to Silk Road.³

f. In documentation to Broker-1, WARREN represented that he had purchased the Bitcoins that he sought to sell from Mt. Gox in 2011 and 2012.

g. Broker-1 informed WARREN of these connections to Silk Road and that, because of those connections, it would not carry out the purchase. Specifically, in an email to WARREN, Broker-1 informed him that it "ran [his] wallet address through our forensic blockchain analytical tools. The result was a direct connection to an address known through court records to be part of the Silk Road criminal case." Broker-1 further informed WARREN that:

user would need the private key for each sending address, which indicates that the addresses are controlled by the same individual and likely as part of the same wallet file. The cluster is then referred to by the first address used within the cluster of transactions. Here, Warren Wallet-1 consists of four separate addresses, with the root address ending in -vcMrwRcx as the first address used.

² Of the approximately 316 Bitcoins in Warren Wallet-1, 0.2237 of a Bitcoin was from Mt. Gox rather than from Silk Road. The rest was all from Silk Road.

³ Mt. Gox was a Bitcoin exchange, which enabled its customers to exchange conventional currency for Bitcoins and vice versa. It shut down in or about February 2014. Prior to that, customers could deposit, store, and withdraw their Bitcoins and currency over the Internet through the Mt. Gox website. Transactions between Mt. Gox wallets are not publicly accessible. Therefore, the original source of the approximately 272 Bitcoins in Warren Wallet-2 cannot be traced with certainty, though the transfers commingling Bitcoins from Mt. Gox and Silk Road suggest that the relevant Mt. Gox account or accounts may have been used by Silk Road vendors or customers.

[W]e are obligated by US law not to facilitate money laundering and can face very serious consequence for failing in these obligations. It is possible that the connection of your wallet address to Silk Road may be inadvertent or innocent. However, we unfortunately cannot move forward with the transaction. Our banking partners, our regulators, and potentially law enforcement agencies simply would not give us the presumption of an innocent connection if we complete the transaction by wiring you the proceeds of \$9,600,000.

h. Instead of completing the transaction, Broker-1 informed WARREN it would return the Bitcoins to WARREN. Broker-1 asked WARREN to specify which of the two addresses Broker-1 could use for the purpose of returning the Bitcoins. Instead, WARREN provided a third address, ending in -PbBLEBFV ("Warren Wallet-3").

i. On or about January 8, 2018, Broker-1 refunded 578 Bitcoins to Warren Wallet-3.

8. Based on my consultation of blockchain analysis software, and my review of information from the Silk Road Server and the Blockchain, I know the following:

a. The Broker-1 analysis that showed the source of JONATHAN WARREN's, the defendant's, Bitcoins accurately reflected the records publicly available in the Blockchain.

b. Between in or about February 2012 and December 2012, over the course of approximately eight transactions, approximately 316 Bitcoins were transferred from Silk Road into Warren Wallet-1.

c. The Silk Road account that transferred those 316 Bitcoins to Warren Wallet-1 was an account with the moniker "Raffael." Between in or about June 2011 and in or about December 2012, the Raffael Silk Road account sold prescription drugs, including Adderall, Clonazepam, and Duloxetine.

d. In the time it was active, the Raffael Silk Road account engaged in finalized orders of drugs sales totaling approximately 534 Bitcoins.

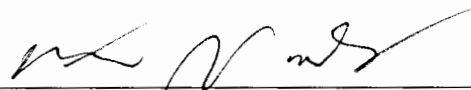
e. After WARREN's attempted transaction with Broker-1 was rejected and he caused the Bitcoins to be returned to him in Warren Wallet-3, the Blockchain no longer reflected a the connection of the Bitcoins to Silk Road. This is so because the serialized chain of transactions had been broken by the use of a new, "clean" wallet, and the provenance of the 316 Bitcoins was concealed.

9. Based on a review of business records from an exchanger of Bitcoins and other digital currency ("Exchange-1"), I know the following:

a. On or about January 16, 2018, WARREN moved the approximately 578 Bitcoins from Warren Wallet-3 to an Exchange-1 account, where he exchanged it for approximately \$6,565,513.81, which was subsequently deposited into his Charles Schwab bank account.

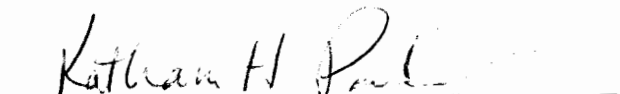
b. Because the Bitcoins in Warren Wallet-3 did not reflect any connection to Silk Road or to their origin as narcotics proceeds, Exchange-1 completed the exchange.

WHEREFORE, deponent respectfully requests that a warrant be issued for the arrest of JONATHAN WARREN, the defendant, and that he be arrested and imprisoned or bailed, as the case may be.



Special Agent Robert J. Vanecek
Drug Enforcement Administration

Sworn to before me this
11th day of June, 2019



THE HONORABLE KATHARINE H. PARKER
United States Magistrate Judge
Southern District of New York